

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2018-318-E

In the Matter of:)	
)	DIRECT TESTIMONY OF
Application of Duke Energy Progress, LLC)	DAVID L. DOSS JR.
For Adjustments in Electric Rate Schedules and)	FOR DUKE ENERGY
Tariffs)	PROGRESS, LLC

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David L. Doss Jr. and my business address is 550 South Tryon Street, Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, LLC, a service company affiliate of Duke Energy Progress, LLC (“DE Progress” or the “Company”), as Director of Electric Utilities and Infrastructure Accounting. DE Progress is a subsidiary of Duke Energy Corporation (together with its subsidiaries “Duke Energy”).

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from the University of Texas at Austin with a Bachelor’s of Business Administration degree and I am a certified public accountant licensed in the state of Texas.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. I have over 30 years of professional experience with Duke Energy, including over 20 years of management experience in various accounting and finance roles. I was named to my current role as Director of Electric Utilities and Infrastructure Accounting in December 2016.

1 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS DIRECTOR OF**
2 **ELECTRIC UTILITIES AND INFRASTRUCTURE ACCOUNTING.**

3 A. I am responsible for the general accounting and financial reporting functions
4 of Duke Energy's public electric utility operating companies in the Carolinas,
5 Florida, Ohio, Indiana, and Kentucky, including DE Progress.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY**
7 **OTHER COMMISSION?**

8 A. I testified before this Commission in DE Progress' 2016 South Carolina rate
9 case in Docket 2016-227-E. I have also testified before the North Carolina
10 Utilities Commission ("NCUC") in Duke Energy Carolinas' 2017 rate case in
11 Docket E-7, Sub 1146, and in DE Progress's rate case in Docket E-2, Sub
12 1142.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. My testimony will cover the financial position of DE Progress at
15 December 31, 2017, and the actual results of the Company's operations for the
16 twelve months ending December 31, 2017 (the "Test Period"). The
17 Company's financial position and operating results and the actual data
18 required under 26 S.C. Code Ann. Reg. 103-823 of the Public Service
19 Commission of South Carolina's (the "Commission") Rules and Regulations
20 are set forth in Doss Exhibit 1 and in the column labeled "Total Company Per
21 Books" in Bateman Exhibit 1. I discuss the amount of the Company's nuclear
22 decommissioning costs allocated to the Company's South Carolina retail
23 electric operations and that the Company is not including any

1 decommissioning expense in its rate request based on the results of the 2013
2 TLG Services Cost Studies and the Company's projected nuclear
3 decommissioning trust fund balances. I also discuss the amount of the
4 Company's depreciation expense based on the Company's revised
5 depreciation study (the "Depreciation Study"), included as Doss Exhibit 2,
6 and the adjusted depreciation rates to the Depreciation Study, included as
7 Doss Exhibit 3 based on the partial settlement agreement entered into with the
8 Public Staff of the NCUC which was approved by the NCUC and this
9 Commission. Finally, I provide as my Exhibit 4 the Decommissioning Cost
10 Estimate Study prepared by Burns and McDonnell, described later in my
11 testimony.

12 **Q. WERE DOSS EXHIBITS 1, 2, 3, AND 4 PREPARED OR PROVIDED**
13 **HEREIN BY YOU, UNDER YOUR DIRECTION AND SUPERVISION?**

14 A. Yes. They were.

15 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES**
16 **AND BOOKS OF ACCOUNT OF DE PROGRESS?**

17 A. Yes. The books of account of DE Progress follow the Uniform System of
18 Accounts prescribed by the Federal Energy Regulatory Commission. This
19 Uniform System of Accounts has been adopted by the Commission and is
20 followed by the investor-owned utilities subject to its jurisdiction.

1 **Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS**
2 **BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?**

3 A. DE Progress maintains and relies upon an extensive system of internal
4 accounting controls and audits by both internal and external auditors. The
5 system of internal accounting controls provides reasonable assurance that all
6 transactions are executed in accordance with management's authorization and
7 are recorded properly.

8 The system of internal accounting controls is reviewed annually,
9 tested, and documented by the Company to provide reasonable assurance that
10 amounts recorded on the books and records of the Company are accurate and
11 proper. In addition, independent certified public accountants perform an
12 annual audit to provide assurance that internal accounting controls are
13 operating effectively and that the Company's financial statements are
14 materially accurate.

15 **II. FINANCIAL POSITION AND RESULTS**

16 **Q. PLEASE DESCRIBE WHAT IS PRESENTED ON DOSS EXHIBIT 1.**

17 A. Doss Exhibit 1 sets forth the Company's financial statements. Pages 1 and 2
18 contain the Company's Balance Sheet as of December 31, 2017. Page 3 is the
19 Company's Income Statement for the twelve months ending December 31,
20 2017. Page 4 is the Company's Statement of Capitalization at December 31,
21 2017. Certain information shown on Doss Exhibit 1 is also included in
22 Exhibit D to the Company's Application.

1 **Q. ARE THE CAPITAL EXPENDITURES AND OPERATING EXPENSES**
2 **REPRESENTED ON DOSS EXHIBIT 1 ACCURATE?**

3 A. Yes. An integral part of the Company's system of internal accounting controls
4 includes various budgeting, planning, and review procedures to establish and
5 monitor the capital and operating budgets, as well as actual expenditures.

6 **III. NUCLEAR DECOMMISSIONING**

7 **Q. WHAT AMOUNT OF NUCLEAR DECOMMISSIONING EXPENSE IS**
8 **INCLUDED IN DE PROGRESS' PER BOOK AMOUNT FOR**
9 **DEPRECIATION EXPENSE?**

10 A. The amount of nuclear decommissioning expense included in DE Progress'
11 per book amount for depreciation expense is \$0 in the Test Period. DE
12 Progress is not seeking to change the South Carolina retail annual funding
13 amount of \$0 for nuclear decommissioning costs as a part of this rate case
14 proceeding. DE Progress plans to initiate an update to its nuclear
15 decommissioning cost studies expected to be completed in 2019, and will be
16 filed with the Commission within 90 days of management approval of the new
17 estimates. Funding studies are required to be filed within 210 days of
18 management approval of the revised estimates, which is anticipated to be in
19 2019 or 2020.

20 On January 30, 2014, the Commission issued Order No. 2014-138
21 approving DE Progress' request to adjust the level of decommissioning
22 contributions for its four nuclear units located at Brunswick, H.B. Robinson
23 and Shearon Harris Nuclear Stations and applicable to DE Progress' South

1 Carolina retail operations and deferring into a regulatory liability account
2 certain decommissioning expense credits effective January 1, 2014. The Order
3 authorized DE Progress to defer as a regulatory liability approximately \$3
4 million annually of decommissioning expense included in South Carolina
5 retail customers' rates, leaving approximately \$1.6 million of
6 decommissioning expense included in rates to continue to be deposited in the
7 nuclear decommissioning trust fund for South Carolina retail's share of
8 nuclear decommissioning costs.

9 On December 10, 2015, the Company updated its nuclear
10 decommissioning cost study and recalculated its funding requirements. The
11 results of the new funding study show that as of September 30, 2015, funding
12 was sufficient. Accordingly, the Company requested an Accounting Order
13 authorizing it to cease contributions to the decommissioning trust fund
14 attributable to the amount of decommissioning costs included in DE Progress'
15 South Carolina retail rates, retroactive to the fourth quarter of 2015. This
16 increased the amount recorded to the previously established regulatory
17 liability by \$1.6 million annually. Consistent with Order No. 2015-308, DE
18 Progress also requested approval to use the regulatory liability created from the
19 deferral of nuclear decommissioning costs being collected from its South
20 Carolina retail customers to provide for the payment of certain environmental
21 remediation costs that have been or are being incurred related to its coal-fired
22 generating facilities.

1 The Commission approved DE Progress' request on January 19, 2016 under
2 Order No. 2016-36 in Docket No. 2013-472-E, which directed the Company
3 to eliminate the amount of nuclear decommissioning expense included in cost
4 of service effective October 1, 2015, and to defer in a regulatory liability
5 account the amount included in current rates used to fund the Nuclear
6 Decommissioning Trusts. Further, the Commission ruled that DE Progress
7 could use the regulatory liability account to offset expenses associated with
8 permanently closing ash basins and other ash storage units at the Company's
9 coal-fired generating facilities, which have generated or are generating
10 electricity to retail customers in South Carolina (with expenses subject to
11 review in a subsequent general rate case or other proceeding). DE Progress
12 noted that none of the amount in the regulatory liability account would be
13 used by the Company for any fines or penalties related to DE Progress'
14 management of coal ash.

15 The Commission requested that DE Progress continue to submit
16 periodic reports to the Commission and ORS updating its decommissioning
17 cost studies and the status of the funds, so as to ensure that an adequate level
18 of funds remain in the Nuclear Decommissioning Trust for future
19 decommissioning of the Company's nuclear units. DE Progress expects to file
20 these reports with the Commission in 2019 or 2020 within the required filing
21 deadlines after the decommissioning cost studies and funding studies are
22 complete.

1 IV. DEPRECIATION RATES

2 **Q. HAS THIS COMMISSION RECENTLY APPROVED REVISED**
3 **DEPRECIATION RATES FOR DE PROGRESS?**

4 A. Yes. On June 22, 2018, DE Progress filed a Petition for an Accounting Order
5 to Adopt New Depreciation Rates along with a revised depreciation study. On
6 August 2, 2018, the Commission approved an Accounting Order in Order No.
7 2018-530 approving the revised depreciation rates but clarified that the ruling
8 does not preclude the Commission or any party from addressing the
9 reasonableness of the revised depreciation rates in this rate case.

10 **Q. WERE CUSTOMER RATES ALSO REVISED AS A RESULT OF THE**
11 **COMMISSION'S APPROVAL OF THE REVISED DEPRECIATION**
12 **STUDY AND DEPRECIATION RATES?**

13 A. No. The Company did not request a change in current customer rates. In
14 Docket No. 2018-205-E, the Company filed a Petition requesting an
15 Accounting Order and permission to defer the increased expense from the
16 depreciation study's new rates in a regulatory asset for consideration in this
17 rate case proceeding. On August 9, 2018, the Commission approved the
18 Company's Accounting Order request in Order No. 2018-553.

19 **Q. IS THE COMPANY REQUESTING TO INCREASE CUSTOMER**
20 **RATES AT THIS TIME BASED ON THE REVISED DEPRECIATION**
21 **RATES?**

22 A. Yes.

1 **Q. PLEASE DESCRIBE THE REVISED DEPRECIATION STUDY AND**
2 **REVISED DEPRECIATION RATES PREVIOUSLY APPROVED BY**
3 **THE COMMISSION.**

4 A. The Company commissioned Gannett Fleming Valuation and Rate
5 Consultants, LLC to perform a revised depreciation study as of December 31,
6 2016. Doss Exhibit 2 is the complete Depreciation Study.
7 Notable updates since the 2010 depreciation study previously approved by this
8 Commission in Docket Nos. 2016-227-E and 2012-384-E in terms of
9 production assets include estimates of final plant decommissioning costs for
10 steam, hydraulic, and other production plants, as well as adjusted rates for
11 updated probable generation plant retirement dates. Estimates for final
12 decommissioning costs at steam, hydraulic, and other production plants were
13 obtained from the *Decommissioning Cost Estimate Study* prepared by Burns
14 and McDonnell, an external engineering firm. Estimates for costs related to
15 coal ash pond closures are not included in the net salvage estimates and
16 therefore not included in depreciation rates. The depreciation rates for
17 various fossil and hydro plants were also updated as a result of changes in the
18 probable retirement dates. The probable retirement dates were updated
19 primarily to align dates with current licenses, industry standards, or
20 operational plans due to aging technology, assumptions for future
21 environmental regulations, or new planned generation. See further
22 discussions around updates to probable retirement dates in Witness Miller's
23 testimony. Additionally, the rate for the Asheville coal plant was updated to

1 reflect recovery of the remaining net book value of the plant over a ten-year
2 period. The Depreciation Study also incorporates generation assets placed in
3 service since the last study. These assets include Smith Energy Complex
4 Power Block 5, H.F. Lee Combined Cycle, Sutton Combined Cycle, and the
5 four solar facilities (Camp Lejeune, Fayetteville, Warsaw, and Elm City).

6 Other notable updates to the Depreciation Study include an updated
7 rate for meters that will be replaced under the Company's Advanced Metering
8 Infrastructure ("AMI") Deployment program. Please see Witness Schneider's
9 testimony for more information about this program. The revised meter
10 depreciation rate is designed to recover the net book value of these assets over
11 ten years. Finally, the average service life and net salvage assumptions were
12 updated for various distribution, transmission, and general plant assets.

13 The Commission's Order No. 2018-530 also approved the following
14 six adjustments to the Depreciation Study as described in Docket 2018-204-
15 E: (1) use of a 10 percent contingency for future "unknowns" in the estimate
16 of future terminal net salvage costs instead of the 20 percent proposed in the
17 Depreciation Study; (2) use of a 10-year remaining life for the meters that are
18 being retired pursuant to the Company's AMI program, instead of the
19 approximate three-year amortization proposed in the Depreciation Study; (3)
20 use of a 70-R2 survivor curve for Account 356 [Overhead Conductors and
21 Devices] instead of the 65-R2.5 survivor curve proposed in the Depreciation
22 Study; (4) use of a negative ten percent future net salvage for Account 366
23 [Underground Conduit] instead of the negative fifteen percent future net

1 salvage proposed in the Depreciation Study; (5) use of a 17-year life for new
2 AMI meters [Account 370], instead of the 15-year life proposed in the
3 Depreciation Study; and (6) use of a 20-year amortization period for Accounts
4 391 [Office Furniture and Equipment] and 397 [Communication Equipment],
5 instead of a 15 year [Account 391] and 10 year [Account 397] amortization
6 period proposed in the Depreciation Study (the “Depreciation Study
7 Adjustments”). The Company is requesting Commission approval to revise
8 customer rates based on the revised depreciation rates and Depreciation Study
9 Adjustments as shown on Doss Exhibit 3 and Bateman Exhibit 1, Page 4b.
10 The Company continues to believe that these adjusted depreciation rates are
11 reasonable for use in this proceeding.

12 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

13 A. Yes.